life after work℠

plan to make it good.

a guide to your

distribution options

when you're ready to turn your savings into retirement income

TVA 401(k) Plan

TVA

the future is now

You understand the importance of preparing financially for the future. But what happens now that the future is almost here?

You may be overwhelmed by the sheer number of decisions you need to make. When to retire? Where to live? How to spend your new-found leisure time? And perhaps most importantly how to convert the savings you've worked so hard to accumulate into a retirement paycheck?

This brochure is designed to help you evaluate the distribution options available from the TVA 401(k) Plan and includes

- your options in detail
- the tax consequences of each alternative
- the action you'll need to take to turn your assets into a stream of income

let's get **started**

One of the most critical decisions you'll make about your retirement concerns your TVA 401(k) Plan. Unlike Social Security and any traditional pension plans you may be eligible for, the amount you receive from your TVA 401(k) Plan account is under your direct control. The choices you make now about your balance can significantly influence the amount of retirement income produced from your savings.

That's why it's so important to carefully consider all your distribution options before deciding which one is appropriate for your situation. While you are evaluating your options, be sure to consider the following:

Your retirement income needs

Are your expenses likely to increase, decrease or stay about the same? How much of your income will be provided by Social Security and any pension benefits you may be eligible to receive? How and when do you need to start accessing your TVA 401(k) Plan account? Answers to these questions may help you determine the distribution option that's best for you.

Your retirement time horizon

On average, people are now spending 20 or more years in retirement. You could spend even more if you intend to retire early. You need to plan and invest carefully even after you've retired to help ensure your money lasts at least that long.

How easy or difficult will it be to access your money

You'll want to make sure the distribution option(s) you choose allow convenient access to your money throughout retirement.

The tax implications of your decision

Taking a cash distribution can subject you to current federal income taxes as well as any applicable state and local income taxes. In contrast, leaving your savings in your TVA 401(k) Plan or rolling over your savings to a rollover IRA allows you to defer current income taxes and keep all your money working for you, even after you retire.

The investment options and flexibility offered

Look for distribution options that allow you a range of investment choices and the flexibility to invest appropriately to help meet your personal financial objectives.

Minimum Required Distributions (MRDs)

Once you reach age 70½, the IRS requires you to start taking distributions from your 401(k) Plan each year based on your life expectancy and account balance.* You'll need to structure your distribution to meet this minimum required distribution to avoid costly tax penalties.

What fees apply

It's a good idea to find out if any fees are associated with each distribution option before making your decision. Call a Fidelity Retirement Services Specialist at 1-800-354-7121 if you have any questions about any applicable fees.

Avoiding automatic 20% income tax withholding

Most distributions from the pretax portion of your 401(k) plan are subject to an automatic 20% withholding for the prepayment of federal income taxes. You can avoid prepaying income taxes on your withdrawals so long as your withdrawal is

- part of a series of *substantially equal periodic payments* over the life expectancy(ies) of you or you and your beneficiary
- part of a series of *substantially equal periodic payments* over a period of at least 10 years
- a distribution of employee after-tax contributions (in this instance, any earnings you withdraw will be subject to withholding, but any principal will not)
- a distribution that is a minimum required distribution (MRD) if you have attained age 70½ and are no longer working

Keep in mind that you'll still owe income taxes on the above payments and may be subject to a 10% early withdrawal penalty. Be sure you understand the tax consequence of any distribution before you initiate one. You may want to consult your tax advisor about your situation.

* *Participants who are actively employed may be able to defer their MRDs until April 1 following the calendar year in which they retire.*

your options

In general, you have five options when deciding what to do with your plan balance. You can

- leave your money in the TVA 401(k) Plan
- take systematic withdrawals from the TVA 401(k) Plan
- transfer your money to a rollover IRA
- elect a lifetime annuity outside of the TVA 401(k) Plan
- take a cash distribution

option 1 leave your money in the TVA 401(k) Plan

You can continue to enjoy the many advantages of the TVA 401(k) Plan even after you retire by simply leaving your money in the plan until you must begin minimum required distributions at age 70½.

Features

- Continued potential for tax-deferred growth
- Access to the same wide array of investment options offered to active employees—including individual securities and an array of mutual funds
- Control over your investment mix
- Avoid early withdrawal penalties as long as you leave your money in the plan
- May allow you time to decide what to do with your balance

Tax considerations

- You won't pay income taxes until you take a distribution

You have access to the same investment options available to you as an active plan participant, and you can make adjustments to your investment mix any time you choose. That means you can continue to tailor your investment options in response to your changing needs and market conditions. As an added bonus, your 401(k) Plan account balance continues on a tax-deferred basis until withdrawn.

To learn how to leave your savings in the TVA 401(k) Plan, refer to the Next Steps section in the chart on page 7.

option 2 take systematic withdrawals from the TVA 401(k) Plan

A Systematic Withdrawal Plan (SWP), allows you to take the money you have contributed through your plan, and any earnings, in periodic installment payments after you leave employment with TVA. You may also be able to take unscheduled payments as needed.

Features

- Continued potential for tax-deferred growth
- Access to the same wide array of investment options offered to active employees
- Control over your investment mix
- Access to savings – you can take additional withdrawals if the need arises*
- The full market value of your 401(k) plan account (less taxes) can be distributed to your beneficiaries
- Way to meet minimum required distributions (MRDs)
- Eligible systematic withdrawals may help you avoid any early withdrawal penalties

Tax considerations

A SWP can begin after you leave TVA employment regardless of your age. However, you should consider these tax consequences.

- Income taxes are due on systematic withdrawal payments as you receive them.
- Withdrawals taken prior to age 59½ may, unless you turn age 55 or older in the year you retire, be subject to an early withdrawal penalty.

SWP payment options

When you choose a systematic withdrawal plan, you have direct control over your income payments. Your payments can be in an amount you specify, over a specified time frame, or calculated for you based on your life expectancy.

You may receive distributions in monthly, quarterly, semiannual, or annual installments, and you can change or stop your SWP at any time. You can also elect to receive a partial withdrawal of your account balance at any time and still continue to receive your SWP.*

Which systematic withdrawal method may be right for you?

There are a variety of ways to structure your systematic withdrawal plan. You choose the method that best suits your needs.

Method	How it works	Tax considerations
Dollar certain	Specific dollar payments are made regularly on a monthly, quarterly, semiannual, or annual basis until your balance is reduced to zero. The number of payments will vary depending on the total market value of your account and the performance of your investment elections.	• May not meet MRD requirements • Does not avoid 10% early withdrawal penalty if made prior to age 59½ unless you turn age 55 or older in the year you retire
Time certain	A specific number of payments are made regularly, the value of which fluctuate based on the total market value of your account, the performance of your investment elections, and the payment frequency you select.	• Meets MRD requirements if period is equal to life expectancy and may meet MRD requirements if period is less than life expectancy.* • May avoid 10% early withdrawal penalty if made prior to age 59½ and if taken as substantially equal periodic payments
Life expectancy	Regular payments are calculated based on your life expectancy or the life expectancies of you and your designated beneficiary. Each year the monthly benefit will be recalculated so that your account balance is divided by your original life expectancy minus 12 months. You should be aware that your account balance will be zero and payments will cease at the end of your assumed life expectancy, even if you live longer than your assumed life expectancy.	• Meets MRD requirements* • Avoids 10% early withdrawal penalty if taken as substantially equal periodic payments

** If you set up your payment schedule to satisfy IRS rules for minimum required distributions (MRDs) or if you are taking substantially equal periodic payments to avoid the 10% early withdrawal penalty, any changes to your payment schedule may have severe tax consequences. Always consult a tax advisor before making any changes.*

Continued from preceding page

If a SWP is taken in substantially equal periodic payments, there may be severe tax consequences on payments already received if you change the amount of the payments within the first five years or before you reach age 59½, whichever is later. You should consult your tax advisor on this subject. Once you reach age 70½ and are no longer working, the IRS requires you to begin taking minimum required distributions each year. You may continue to take your withdrawals in the form of a SWP; however, the amounts must meet the required minimum each year.

To learn how to start systematic withdrawals from the TVA 401(k) Plan, refer to the Next Steps section in the chart on page 7.

option 3 transfer your money to a Rollover IRA

Another way to maintain the tax-deferred status of your account after retirement from TVA is by making a direct rollover of your eligible assets to a rollover IRA.

Features

- Broad range of investment options
- Access to your savings
- Control over your investment mix

Tax considerations

- Assets have potential to continue to grow tax-deferred.
- Income taxes due on withdrawals only as you take them.
- Can establish systematic withdrawals to meet MRD requirements*.

This strategy also offers the dual benefits of investment flexibility and easy access to your money. It also lets you establish a schedule of systematic withdrawals.

To learn how to establish a rollover IRA, refer to the Next Steps section in the chart on page 7.

option 4 elect a lifetime annuity outside of the TVA 401(k) Plan

An annuity is a contract that converts a single payment into a stream of income that's guaranteed for life.** There are several types of annuities to choose from, including

- **fixed income annuities** that generate fixed dollar amount payments
- **variable income annuities** where payments are based on the performance of the annuity's investment portfolio
- a **combination approach** where a portion of lifetime payments remain fixed and the other portion varies based on the performance of the investment portfolio selected

Features

- Guaranteed lifetime income**
- Automatically meets IRS minimum required distributions beginning at age 70½*.

Tax considerations

- You won't pay income taxes on the money at the time you purchase your annuity.
- Income taxes are due on payments as you receive them.
- Payments are not subject to mandatory 20% withholding.
- Payments from qualified income annuities may avoid 10% early withdrawal penalty if under age 59½ ^.

To learn how to purchase an annuity, refer to the Next Steps section in the chart on page 7.

**Participants who are actively employed may be able to defer their MRDs until April 1 following the calendar year in which they retire.*

***Subject to the claims paying ability of the issuing insurance company.*

Variable annuity values and investment returns will fluctuate, and you may have a gain or loss when the money is withdrawn.

^Taxable withdrawals made prior to age 59½ will be subject to a 10% penalty as well as ordinary income taxes.

option 5 take a cash distribution

When you leave employment with TVA, you may withdraw all of your savings in one lump sum or take a partial cash distribution. While a cash distribution provides immediate access to your assets, it can have costly tax consequences since you may be subject to federal, state, and local income taxes as well as an early withdrawal penalty at the time of distribution.

Features

- Provides immediate access to cash remaining after taxes and penalties

Tax Considerations

- Income taxes due on amount distributed
- 20% automatic withholding* (but actual taxes owed may be higher or lower)
- May be subject to 10% early withdrawal penalty
- No opportunity for ongoing tax-deferred growth

Why a cash distribution may not generate as much money as you expected

Here's why taking a cash distribution may leave you with less money than you expect.

You'll owe federal income taxes

Depending on your tax bracket at the time of distribution, a good portion of your account may go toward paying federal income taxes. Tax law requires that 20% of your taxable distribution be automatically withheld as prepayment of federal income tax — but what you owe may actually be more or less than that. (After-tax contributions, MRDs, and distributions of substantially equal payments are not subject to this mandatory withholding.)

You may also owe state and local income taxes

Depending on where you live, your distribution could also be subject to state and local income taxes.

You may also be subject to an early withdrawal penalty

You could owe a 10% early withdrawal penalty unless you take a distribution: a) after age 59½, b) after separation from service in the year you turn age 55 or older, or c) as part of a series of substantially equal periodic payments (at least annually) made over your life expectancy or over the joint life expectancies of you and your designated beneficiary. For other exceptions to the early withdrawal penalty, please consult your tax advisor.

Therefore, you should carefully consider the effect a cash distribution could have on your nest egg. If you need cash right away, you might prefer to leave your money in the plan and take systematic withdrawals from your account instead. That way, you would still have access to your money, but the portion of your nest egg that remains in your account could continue to grow tax-deferred—making a significant difference in the amount of money you will have available in the long run.

To learn how to do take a cash distribution from the plan, refer to the Next Steps section in the chart on page 7.

How taxes could effect your distribution

Use this worksheet to determine how much of your distribution you could lose to taxes and the early withdrawal penalty (if applicable).	Hypothetical example	Your calculation
1 Eligible retirement plan distribution	$100,000	__________
2 Federal income tax[1] (multiply line 1 by your federal income tax bracket)	($ 33,000)	__________
3 10% early withdrawal penalty (if younger than age 59½ or under age 55 in the year when separated from service) (multiply line 1 by 10%)	($ 10,000)	__________
4 State and local taxes[2] (multiply line 1 by your state and local income tax bracket)	($ 5,000)	__________
Amount left to spend or reinvest	**$ 49,000**	

As you can see, you can preserve more of your retirement assets if you don't take a distribution in cash, but keep your savings invested to maintain its tax-deferred status.

[1] *Note: example assumes a 33% federal tax bracket for 2002.*
[2] *Note: example assumes 5% state and local income tax bracket.*

**Please note if you were born before 1936, you may be eligible for special 10-year averaging on your lump sum distribution. Please call Fidelity or check with your tax advisor for more information.*

Comparing all your options

Distribution option	What it is	The pros	The cons	Next Steps
Leave your money in the TVA 401(k) Plan	Potential to keep your money growing tax-deferred in the plan until you need it.	• Money has the potential to continue growing tax-deferred • Access to the same wide array of investment options offered to active employees • Avoid early withdrawal penalties • Can begin taking systematic withdrawals from your account at any time	• Limits you to your 401(k) Plan's investment options	• Indicate your instructions to defer your 401(k) balance on your TVA Retirement System Application for Retirement Benefits
Take systematic withdrawals from the TVA 401(k) Plan	Receive your savings at regularly scheduled intervals.	• Portion remaining still tax-deferred • Provides regular income • Flexible payment options • Control over your investment mix • Access to your savings • May meet Minimum Required Distribution (MRD) • May avoid early withdrawal penalty • Can still take unscheduled withdrawal	• Ends tax-deferred status of assets upon receipt of payments • 10% early withdrawal penalty may apply*	• Call Fidelity at 1-800-354-7121 to set up your Systematic Withdrawal Plan
Transfer your money to a rollover IRA	Make a direct rollover of your eligible assets to an IRA.	• Maintains tax-deferred status • Offers extensive investment flexibility • Provides easy access to your retirement savings • Avoids current taxes and 10% early withdrawal penalty	• Terminates relationship with TVA 401(k) Plan	• Call Fidelity Investments at 1-800-354-7121 to request a direct rollover.
Elect a lifetime annuity outside of the plan	Purchase contract that converts a single payment into an immediate stream of income that's guaranteed for life**	• Automatically meets minimum required distribution as required by the IRS at age 70½*** • You won't pay income taxes on the money used to purchase your annuity • Payments are not subject to mandatory 20% withholding • Payments from qualified income annuities may avoid 10% early withdrawal penalty if under age 59½	• May have limited investment options • May carry high fees	• Call Fidelity Investments at 1-800-354-7121 for further information and an application
Take a cash distribution	Withdraw all of your savings in one lump sum or take a partial cash distribution	• Provides immediate access to cash remaining after taxes and penalties (if applicable)	• Subjects you to 20% federal withholding and possibly state and local income tax • 10% early withdrawal penalty may apply • Ends tax-deferred status of savings	• Call Fidelity Investments at 1-800-354-7121 to request a cash distribution.

For more information about selecting a distribution option or combination of options that is most appropriate for your financial situation, call a Fidelity Retirement Services Specialist at 1-800-354-7121 Monday through Friday from 8:00 A.M. to midnight ET.

**If you set up your payment schedule to satisfy IRS rules for minimum required distribution (MRD) or if you are taking substantially equal periodic payments to avoid the 10% early withdrawal penalty, any changes to your payment schedule may have severe tax consequences. Always consult a tax advisor before making any changes.*

***Subject to the claims-paying ability of the issuing insurance company.*

****Participants who are actively employed may be able to defer their MRDs until April 1 following the calendar year in which they retire.*

investing with **Fidelity**

You've come to know and appreciate the wide range of services provided by Fidelity Investments through the TVA 401(k) Plan—and you can continue this relationship even after you retire.

Whether you intend to leave your money in the plan, purchase an annuity or establish a systematic withdrawal plan or rollover IRA, Fidelity can assist you in making the most of your retirement income.

Fidelity offers

A commitment to making things easy for you

Since you already have an established relationship with Fidelity through the TVA 401(k) Plan, it's easy to initiate any of the distribution options. You'll enjoy a wide range of investment options and a variety of choices in structuring your distribution to best meet your retirement income needs. What's more, your assets will remain invested during the process of setting up your distribution plan. Call **1-800-354-7121** to initiate a rollover IRA, establish a systematic withdrawal plan, purchase an annuity, or any combination of these distribution options through Fidelity.

An extensive range of resources ready to serve you

You have access to valuable resources to assist you in making the most of your retirement savings, including Fidelity Retirement Services Specialists who can help answer your questions over the phone.

A variety of financial information and planning tools to continue your financial education

Fidelity offers information and planning tools online at **www.publicsave.com** as well as an extensive library of free educational guides and other publications.

Retirement experience

More than 17.7 million investors have trusted their retirement savings to Fidelity through IRAs and employer-sponsored retirement plans.[#]

Investment options to suit any needs

Fidelity offers access to hundreds of retirement investment options from Fidelity, plus mutual fund options from other well-known mutual fund companies.

Cost-saving opportunities

Because you already have an account with Fidelity through the TVA 401(k) Plan, you won't pay Fidelity mutual fund sales charges on any eligible assets from the plan that you roll over to a Fidelity Rollover IRA and reinvest in Fidelity mutual funds.*

[#]As of 06/30/01

**Other fees and expenses, including those which apply to a continued investment in the fund, are described in the fund's current prospectus. Account fees may also apply.*

get ready for a

great retirement

When you consider you're likely to spend 20 or more years in retirement, you realize that planning is key to your happiness. Whatever your dream, there are a number of decisions to make, factors to consider, and strategies that may help you live your retirement just the way you imagine.

We hope this guide has given you a clearer picture of how to turn your savings into retirement income, and that you'll carefully consider all the options before deciding which is right for you.

For more complete information about Fidelity mutual funds or any investment options available through your plan, including fees and expenses, call 1-800-354-7121 for free prospectuses. Read them carefully before you invest or send money.

The taxable portion of a distribution from a qualified plan is taxed as ordinary income in the year withdrawn. If you are under age 59 1/2 at the time of distribution, a 10% early withdrawal penalty may apply, unless you are age 55 or older in the year in which you separate from service. If a distribution is eligible to be rolled over, but is not directly rolled over to a qualified plan or an IRA, 20% mandatory withholding of federal income tax applies. Be sure you understand the tax consequences of any distribution before you initiate one. You may want to consult your tax advisor about your situation.

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